

**REPORT OF THE AUDIT OF THE
NELSON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Nelson County, Kentucky, for the year ended December 31, 2004.

We engaged Tichenor & Associates, LLP to perform the audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Nelson County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
NELSON COUNTY SHERIFF

For The Year Ended
December 31, 2004

Tichenor & Associates, LLP has completed the Nelson County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$59,377 from the prior year, resulting in excess fees of \$66,970 as of December 31, 2004. Revenues increased by \$63,942 from the prior year and expenditures increased by \$126,950.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Nelson County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

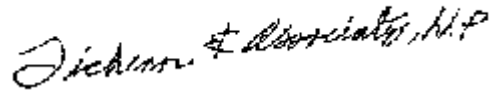
The Honorable Dean Watts, Nelson County Judge/Executive
The Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Nelson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed –
October 5, 2005

NELSON COUNTY
 MIKE NEWTON, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State - Kentucky Law Enforcement Foundation Program Fund		\$ 86,219
State Fees For Services:		
Finance and Administration Cabinet	\$ 93,138	
Sheriff Security Service	50,927	
Forfeiture Payments (HB 413)	7,486	
Fugitive Return	<u>15,814</u>	167,365
Circuit Court Clerk:		
Fines and Fees Collected	25,213	
Court Ordered Payments	<u>18,522</u>	43,735
Fiscal Court		6,489
County Clerk - Delinquent Taxes		1,948
Commission On Taxes Collected		412,398
Fees Collected For Services:		
Auto Inspections	8,210	
Accident and Police Reports	843	
Serving Papers	40,935	
Carrying Concealed Deadly Weapon Permits	9,273	
Add On Fee	<u>18,390</u>	77,651
Tax Search Reimbursement		10,149
Interest Earned		5,056
Borrowed Money:		
State Advancement		<u>239,036</u>
Total Revenues		\$ 1,050,046

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
 MIKE NEWTON, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 289,726
Other Salaries	160,439
Overtime	30,392

Employee Benefits-

Employer's Share Hazardous Duty Retirement	58,279
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Contracted Services-

Computer Lease	11,350
Vehicle Maintenance and Repairs	6,565

Materials and Supplies-

Office Materials and Supplies	6,173
Uniforms	2,296
Police Equip. & Supplies	12,460
Juror Expenses	137

Auto Expense-

Gasoline	14,055
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Other Charges-

Conventions and Travel	2,029
Dues	30
Postage	10,338
Carrying Concealed Deadly Weapon Permits	4,150
Transport Prisoners	15,753

Capital Outlay-

Office Equipment	11,198
Vehicles	21,970
Misc.-Emergency Funds	14,505

Debt Service:

State Advancement	239,036
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Total Expenditures	<u>\$ 910,881</u>
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The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
MIKE NEWTON, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Net Revenues	\$ 139,165
Less: Statutory Maximum	<u>72,195</u>
Excess Fees Due County for 2004	\$ 66,970
Payments to Fiscal Court - May 31, 2005	60,000
Payments to Fiscal Court - October 4, 2005	<u>6,970</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees, and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent for the first six months and 22.08 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name.

Note 4. Forfeiture and Seizure Account

The Sheriff operates a forfeiture and seizure account with funds received from court-directed payments. Pursuant to the Nelson County District Court Order, these receipts are to be used in drug-related law enforcement. The beginning balance of this account was \$9,647. During the year, the Sheriff had receipts of \$4,324 and disbursements of \$11,308 leaving a balance of \$2,663 as of December 31, 2004.

NELSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 5. Dare Account

The Sheriff operates a DARE account with funds received from court-directed payments. These funds are to be used for Drug Awareness Resistance Education for children. The beginning balance was \$13,306. During the year, the Sheriff had receipts of \$2,462 and disbursements of \$1,997 leaving a balance of \$13,771 as of December 31, 2004.

Note 6. Accident Reconstruction Account

The Sheriff operates an accident reconstruction account with funds received from court-directed payments. Pursuant to the Nelson County District Court Order, these receipts are to be used to purchase equipment and supplies related to accident reconstruction. The balance at the beginning of the year was \$2,500. During the year, the Sheriff had receipts of \$2,500 and disbursements of \$2,931 leaving a balance of \$2,069 as of December 31, 2004.

Note 7. Leases

A. Computer Hardware

The Nelson County Sheriff's office is committed to a lease agreement with Custom Solutions Incorporated, for computer hardware. The agreement requires an annual payment of \$5,494 for a period of three (3) years to be completed August 1, 2006. The total balance of the agreement was \$10,988 as of December 31, 2004.

B. Computer Software

The Nelson County Sheriff's office is committed to a lease agreement with Custom Solutions Incorporated, for computer software. The agreement requires an annual payment of \$4,800 for a period of five (5) years to be completed August 1, 2008. The total balance of the agreement was \$19,200 as of December 31, 2004.

COMMENT AND RECOMMENDATION

NELSON COUNTY
MIKE NEWTON, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2004

INTERNAL CONTROL - REPORTABLE CONDITION

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options of establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We recommend that the following compensating controls be implemented to offset these internal control weaknesses.

Cash receipts by mail should be received and recorded by someone separate from the duties of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. The Sheriff could greatly increase the level of compensating controls by requiring mandatory vacations and performing surprise cash counts.

The Sheriff should periodically, compare the daily bank deposit to the daily checkout sheet and then compare the daily check out sheet to the receipts ledger. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.

The Sheriff should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the bank reconciliation and the balance in the checkbook.

The Sheriff should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff should document this review by initialing and dating the quarterly financial report.

The Sheriff should periodically compare invoices to payments. The Sheriff should document the review by initialing and dating the invoices.

Sheriff's Response: We do have only one person to open the mail.

Prior Year:

There were no comments in the prior year.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Dean Watts, Nelson County Judge/Executive
Honorable Mike Newton, Nelson County Sheriff
Members of the Nelson County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Nelson County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated October 5, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

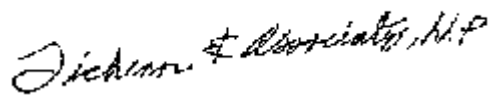
Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Nelson County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tichenor & Associates, LLP".

Tichenor & Associates, LLP

Audit fieldwork completed -
October 5, 2005

